BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE PROPOSED RULEMAKING FOR THE RENEWABLE ENERGY STANDARD AND TARIFF RULES

DOCKET NO. RE-00000C-05-0030

DECISION NO. 68566

ORDER

Open Meeting
February 27, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1 Arizona Corporation Commission Utilities Division Staff ("Staff") proposes changes to the Commission's environmental portfolio standard ("EPS") rules.

2 The proposed changes include adopting new rules, the Renewable Energy Standard and Tariff rules, and repealing the existing EPS rules when the new rules proposed in this docket become effective.

3. The proposed changes gradually increase the required portfolio percentage of renewable energy resources from 1.25 percent to 15 percent, and increase the related funding of the rules' requirements.

4. The proposed changes identify additional technologies and resources as eligible renewable resources.

5. The proposed changes establish a distributed renewable energy resource set aside.

6. The proposed changes specify compliance filings concerning the rules' requirements.

7. The proposed changes permit electric cooperatives to seek waivers of portions of the rules' requirements.

8. The proposed changes reflect other modifications to the existing EPS rules in order to implement the Renewable Energy Standard and Tariff rules' purposes.

9. Over the past four years, the Commission has held several workshops on changes to the existing rules, and the proposed changes have been discussed at numerous Commission Open Meetings.

10. Staff filed the most recent draft rules package including draft proposed rules and a Staff Report on February 3, 2006.

11. The February 3, 2006 Staff Report states that the proposed rules promote the Commission's goals to protect the environment and increase renewable energy resources for diversity of the fuel supply, to enhance system reliability and safety in a post 9/11 era, and to mitigate against volatility in non-renewable fuel prices.

12. The Commission has held several Open Meetings on the proposed rules subsequent to Staff's filing on February 3, 2006.

13. Staff recommends that the Commission issue a Notice of Proposed Rulemaking for the Renewable Energy Standard and Tariff rules, attached to this Decision as Exhibit A.

14. Staff recommends that the Commission instruct Staff to prepare the necessary filings for the publication of the Renewable Energy Standard and Tariff rules in the Arizona Administrative Register by the Secretary of State, and to make any appropriate non-substantive changes to the rules as is required by the Secretary of State for publication.

15. Staff recommends that the Commission instruct the Administrative Law Judge to issue a procedural order to schedule public comment sessions within the timeframes established in A.R.S. Sections 41-1022.D and 1023.D.

16. The initiation of the formal rulemaking processes for the Renewable Energy Standard and Tariff rules and the forwarding of the Notice of the Proposed Rulemaking to the Secretary of State for publication in the Arizona Administrative Register are in the public interest.

CONCLUSIONS OF LAW

The Commission has the authority to enact the Renewable Energy Standard and Tariff rules under Article XV of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

ORDER

IT IS THEREFORE ORDERED that the necessary filings shall be prepared by Staff to initiate formal rulemaking processes and that a Notice of Proposed Rulemaking for the Renewable Energy Standard and Tariff rules shall be forwarded to the Secretary of State for publication in the Arizona Administrative Register.

IT IS ALSO ORDERED that Staff may make any necessary non-substantive changes to the Renewable Energy Standard and Tariff rules required by the Secretary of State for publication.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue a procedural order to schedule and notice public comment sessions on the Renewable Energy Standard and Tariff rules, all in accordance with A.R.S. Sections 41-1022.D and 1023.D.

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BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 14th day of March, 2006.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

ATTACHMENT A

TITLE 14. PUBLIC SERVICE CORPORATIONS; CORPORATIONS AND ASSOCIATIONS; SECURITIES REGULATION

CHAPTER 2. CORPORATION COMMISSION-FIXED UTILITIES

ARTICLE 18. RENEWABLE ENERGY STANDARD AND TARIFF

R14-2-1801. Definitions

1. "Affected Utility" means a public service corporation serving retail electric load in Arizona, but excluding any Utility Distribution Company with more than half of its customers located outside of Arizona.
2. "Annual Renewable Energy Requirement" is the portion of an Affected Utility's annual retail electricity sales that must come from Eligible Renewable Energy Resources.
3. "Conventional Energy Resource" is an energy resource that is non-renewable in nature, such as natural gas, coal, oil, and uranium, or electricity that is produced with energy resources that are not Renewable Energy Resources.
4. "Customer Self-Directed Renewable Energy Option" is a Commission-approved program under which an Eligible Customer may self-direct the use of its allocation of funds collected pursuant to an Affected Utility's Tariff.
5. "Distributed Generation" is electric generation sited at a customer premises, providing electric energy to the customer load on that site or providing wholesale capacity and energy to the local Utility Distribution Company for use by multiple customers in contiguous distribution substation service areas. The generator size and transmission needs shall be such that the plant or associated transmission lines do not require a Certificate of Environmental Compatibility from the Corporation Commission.
6. "Distributed Renewable Energy Requirement" is a portion of the Annual Renewable Energy Requirement that must be met with Renewable Energy Credits derived from resources that qualify as Distributed Renewable Energy Resources pursuant to R14-2-1802(B).
7. "Distributed Solar Electric Generator" is electric generation sited at a customer premises, providing electric energy from solar electric resources to the customer load on that site or providing wholesale capacity and energy to the local Utility Distribution Company for use by multiple customers in contiguous distribution substation service areas. The generator size and transmission needs shall be such that the plant or associated transmission lines do not require a Certificate of Environmental Compatibility from the Corporation Commission.
8. "Eligible Customer" is an entity that pays Tariff funds of at least $25,000 annually for any number of related accounts or services within an Affected Utility's service area.
9. "Extra Credit Multiplier" is a means to increase the Renewable Energy Credits attributable to specific Eligible Renewable Energy Resources in order to encourage specific renewable applications.
10. "Green Pricing" is a rate option in which a customer elects to pay a tariffed rate premium for electricity derived from Eligible Renewable Energy Resources.
11. "Market Cost of Comparable Conventional Generation" is the Affected Utility's energy and capacity cost of producing or procuring the incremental electricity that

would be avoided by the resources used to meet the Annual Renewable Energy Requirement, taking into account hourly, seasonal, and long-term supply and demand circumstances. Avoided costs include any avoided transmission and distribution costs and any avoided environmental compliance costs.

12. "Net Billing" is a system of billing a customer who installs an Eligible Renewable Energy Resource generator on the customer's premises for retail electricity purchased at retail rates while crediting the customer's bill for any customer-generated electricity sold to the Affected Utility at avoided cost.
13. "Net Metering" is a system of metering electricity by which the Affected Utility credits the customer at the full retail rate for each kilowatt-hour of electricity produced by an Eligible Renewable Energy Resource system installed on the customer-generator's side of the electric meter, up to the total amount of electricity used by that customer during an annualized period, and which compensates the customer-generator at the end of the annualized period for any excess credits at a rate equal to the Affected Utility's avoided cost of wholesale power. The Affected Utility does not charge the customer-generator any additional fees or charges or impose any equipment or other requirements unless the same is imposed on customers in the same rate class that the customer-generator would qualify for if the customer-generator did not have generation equipment.
14. "Renewable Energy Credit" is the unit created to track kWh derived from an Eligible Renewable Energy Resource or kWh equivalent of Conventional Energy Resources displaced by Distributed Renewable Energy Resources.
15. "Renewable Energy Resource" is an energy resource that is replaced rapidly by a natural, ongoing process and that is not nuclear or fossil fuel.
16. "Tariff" is a Commission-approved rate designed to recover an Affected Utility's reasonable and prudent costs of complying with these rules.
17. "Utility Distribution Company" is a public service corporation that operates, constructs, or maintains a distribution system for the delivery of power to retail customers.
18. "Wholesale Distributed Generation Component" includes non-utility owners of Eligible Renewable Energy Resources that are located within the distribution system and that do not require a transmission line over 69 kv to deliver power at wholesale to an Affected Utility to meet its Annual Renewable Energy Requirements.

R14-2-1802. Eligible Renewable Energy Resources

A. "Eligible Renewable Energy Resources" are applications of the following defined technologies that displace Conventional Energy Resources that would otherwise be used to provide electricity to an Affected Utility's Arizona customers:

1. "Biogas Electricity Generator" is a generator that produces electricity from gases that are derived from plant-derived organic matter, agricultural food and feed matter, wood wastes, aquatic plants, animal wastes, vegetative wastes, or wastewater treatment facilities using anaerobic digestion or from municipal solid waste through a digester process, an oxidation process, or other gasification process.

2. "Biomass Electricity Generator" is an electricity generator that uses any raw or processed plant-derived organic matter available on a renewable basis, including: dedicated energy crops and trees; agricultural food and feed crops; agricultural crop wastes and residues; wood wastes and residues, including landscape waste, right-of-way tree trimmings, or small diameter forest thinnings that are 12" in diameter or less; dead and downed forest products; aquatic plants; animal wastes; other vegetative waste materials; non-hazardous plant matter waste material that is segregated from other waste; forest-related resources, such as harvesting and mill residue, pre-commercial thinnings, slash, and brush; miscellaneous waste, such as waste pellets, crates, and dunnage; and recycled paper fibers that are no longer suitable for recycled paper production, but not including painted, treated, or pressurized wood, wood contaminated with plastics or metals, tires, or recyclable post-consumer waste paper.
3. "Distributed Renewable Energy Resources" as defined in R14-2-1802(B).
4. "Eligible Hydropower Facilities" are hydropower generators that were in existence prior to 1997 and that satisfy one of the following two criteria:
   a. New Increased Capacity of Existing Hydropower Facilities: A hydropower facility that increases capacity due to improved technological and/or operational efficiencies or operational improvements resulting from improved or modified turbine design, improved or modified wicket gate assembly design, improved hydrological flow conditions, improved generator windings, improved electrical excitation systems, increases in transformation capacity, and improved system control and operating limit modifications. The electricity kWh that are eligible to meet the Annual Renewable Energy Requirements shall be limited to the new, incremental kWh output resulting from the capacity increase that is delivered to Arizona customers to meet the Annual Renewable Energy Requirement.
   b. Generation from pre-1997 hydropower facilities that is used to firm or regulate the output of other eligible, intermittent renewable resources. The electricity kWh that are eligible to meet the Annual Renewable Energy Requirements shall be limited to the kWh actually generated to firm or regulate the output of eligible intermittent renewable energy resources and that are delivered to Arizona customers to meet the Annual Renewable Energy Requirements.
5. "Fuel Cells that Use Only Renewable Fuels" are fuel cell electricity generators that operate on renewable fuels, such as hydrogen created from water by Eligible Renewable Energy Resources. Hydrogen created from non-renewable energy resources, such as natural gas or petroleum products, is not a renewable fuel.
6. "Geothermal Generator" is an electricity generator that uses heat from within the earth's surface to produce electricity.

7. "Hybrid Wind and Solar Electric Generator" is a system in which a wind generator and a solar electric generator are combined to provide electricity.
8. "Landfill Gas Generator" is an electricity generator that uses methane gas obtained from landfills to produce electricity.
9. "New Hydropower Generator of 10 MW or Less" is a generator, installed after January 1, 2006, that produces 10 MW or less and is either 1) a low-head, micro hydro run-of-the-river system that does not require any new damming of the flow of the stream; 2) an existing dam that adds power generation equipment without requiring a new dam, diversion structures, or a change in water flow that will adversely impact fish, wildlife, or water quality; or 3) generation using canals or other irrigation systems.
10 "Solar Electricity Resources" use sunlight to produce electricity by either photovoltaic devices or solar thermal electric resources.
11 "Wind Generator" is a mechanical device that is driven by wind to produce electricity.

B. "Distributed Renewable Energy Resources" are applications of the following defined technologies that are located at a customer's premises and that displace Conventional Energy Resources that would otherwise be used to provide electricity to Arizona customers:

1. "Biogas Electricity Generator", "Biomass Electricity Generator", "Geothermal Generator", "Fuel Cells that Use Only Renewable Fuels", "New Hydropower Generator of 10 MW or Less", or "Solar Electricity Resources", as each of those terms is defined in R14-2-1802(A).
2. "Biomass Thermal Systems" and "Biogas Thermal Systems" are systems which use fuels as defined in R14-2-1802(A)(1) and (2) to produce thermal energy and that comply with Environmental Protection Agency Certification Programs or are permitted by state, county or local air quality authorities. For purposes of this definition "Biomass Thermal Systems" and "Biogas Thermal Systems" do not include biomass and wood stoves, furnaces and fireplaces.
3. "Commercial Solar Pool Heaters" are devices that use solar energy to heat commercial or municipal swimming pools.
4. "Geothermal Space Heating and Process Heating Systems" are systems that use heat from within the earth's surface for space heating or for process heating.
5. "Renewable Combined Heat and Power System" is a distributed generation system, fueled by an Eligible Renewable Energy Resource, that produces both electricity and useful renewable process heat. Both the electricity and renewable process heat may be used to meet the Distributed Renewable Energy Requirement.
6. "Solar Daylighting" is the non-residential application of a device specifically designed to capture and redirect the visible portion of the solar beam, while controlling the infrared portion, for use in illuminating interior building spaces in lieu of artificial lighting.

7. "Solar Heating, Ventilation, and Air Conditioning" ("HVAC") is the combination of Solar Space Cooling and Solar Space Heating as part of one system.
8. "Solar Industrial Process Heating and Cooling" is the use of solar thermal energy for industrial or commercial manufacturing or processing applications.
9. "Solar Space Cooling" is a technology that uses solar thermal energy absent the generation of electricity to drive a mechanical refrigeration machine that provides for space cooling in a building.
10. "Solar Space Heating" is a method whereby a mechanical system is used to collect solar energy to provide space heating for buildings.
11. "Solar Water Heater" is a device that uses solar energy rather than electricity or fossil fuel to heat water for residential, commercial, or industrial purposes.
12. "Wind Generator of 1 MW or Less" is a mechanical device, with an output of 1 MW or less, that is driven by wind to produce electricity.

C. Except as provided in R14-2-1802(A)(4), Eligible Renewable Energy Resources shall not include facilities installed before January 1, 1997.

D. The Commission may adopt pilot programs in which additional technologies are established as Eligible Renewable Energy Resources. Any such additional technologies shall be Renewable Energy Resources that produce electricity, replace electricity generated by Conventional Energy Resources, or replace the use of fossil fuels with Renewable Energy Resources. Energy conservation products, energy management products, energy efficiency products, or products that use non-renewable fuels shall not be eligible for these pilot programs.

R14-2-1803. Renewable Energy Credits

A. One Renewable Energy Credit shall be created for each kWh derived from an Eligible Renewable Energy Resource.

B. For Distributed Renewable Energy Resources, one Renewable Energy Credit shall be created for each 3,415 British Thermal Units of heat produced by a Solar Water Heating System, a Solar Industrial Process Heating and Cooling System, Solar Space Cooling System, Biomass Thermal System, Biogas Thermal System, or a Solar Space Heating System.

C. An Affected Utility may transfer Renewable Energy Credits to another party and may acquire Renewable Energy Credits from another party. A Renewable Energy Credit is owned by the owner of the Eligible Renewable Energy Resource from which it was derived unless specifically transferred.

D. All transfers of Renewable Energy Credits shall be appropriately documented. Any sales contract of kWh by a system owner shall explicitly describe the transfer of rights of both electricity and its Renewable Energy Credits. Affected Utilities must document the delivery of the renewable electricity to its customers by providing proof that the necessary transmission rights were reserved and utilized, if transmission is required, and that the appropriate control area operators scheduled the renewable electricity for delivery to the Affected Utility's customers.

R14-2-1804. Annual Renewable Energy Requirement

A. In order to ensure reliable electric service at reasonable rates, each Affected Utility shall be required to satisfy an Annual Renewable Energy Requirement by obtaining Renewable Energy Credits from Eligible Renewable Energy Resources.

B. An Affected Utility's Annual Renewable Energy Requirement shall be calculated each calendar year by applying the following applicable annual percentage to the retail kWh sold by the Affected Utility during that calendar year:

2006	1.25%
2007	1.50%
2008	1.75%
2009	2.00%
2010	2.50%
2011	3.00%
2012	3.50%
2013	4.00%
2014	4.50%
2015	5.00%
2016	6.00%
2017	7.00%
2018	8.00%
2019	9.00%
2020	10.00%
2021	11.00%
2022	12.00%
2023	13.00%
2024	14.00%
After 2024	15.00%

C. An Affected Utility may use Renewable Energy Credits acquired in any year to meet its Annual Renewable Energy Requirement.

D. Once a Renewable Energy Credit is used by any Affected Utility to satisfy these requirements, the credit is retired and cannot be subsequently used to satisfy these rules or any other regulatory requirement.

E. If an Affected Utility trades or sells environmental pollution reduction credits or any other environmental attributes associated with kWh produced by an Eligible Renewable Energy Resource, the Affected Utility may not apply Renewable Energy Credits derived from that same kWh to satisfy the requirements of these rules.

F. No more than 20 percent of an Affected Utility's Annual Renewable Energy Requirement may be met with Renewable Energy Credits derived pursuant to R14-2-1807.

G. An Affected Utility may ask the Commission to preapprove agreements to purchase energy or Renewable Energy Credits from Eligible Renewable Energy Resources.

R14-2-1805. Distributed Renewable Energy Requirement

A. In order to improve system reliability, each Affected Utility shall be required to satisfy a Distributed Renewable Energy Requirement by obtaining Renewable Energy Credits from Distributed Renewable Energy Resources.

B. An Affected Utility's Distributed Renewable Energy Requirement shall be calculated each calendar year by applying the following applicable annual percentage to the Affected Utility's Annual Renewable Energy Requirement:

2007	5%
2008	10%
2009	15%
2010	20%
2011	25%
After 2011	30%

C. An Affected Utility may use Renewable Energy Credits acquired in any year to meet its Distributed Renewable Energy Requirement. Once a Renewable Energy Credit is used by any Affected Utility to satisfy these requirements, the credit is retired.

D. An Affected Utility shall meet one-half of its annual Distributed Renewable Energy Requirement from residential applications and the remaining one-half from non-residential, non-utility applications.

E. An Affected Utility may satisfy no more than 10% of its annual Distributed Renewable Energy Requirement from Renewable Energy Credits derived from Distributed Renewable Energy Resources that are non-utility owned generators that sell electricity at wholesale to Affected Utilities. This wholesale distributed generation component shall qualify for the non-residential portion of the Distributed Renewable Energy Requirement.

R14-2-1806. Extra Credit Multipliers

A. Renewable Energy Credits derived from Eligible Renewable Energy Resources installed after December 31, 2005, shall not be eligible for extra credit multipliers.

B. The extra Renewable Energy Credits resulting from any applicable multiplier shall be added to the Renewable Energy Credits produced by the Eligible Renewable Energy Resource to determine the total Renewable Energy Credits that may be used to meet an Affected Utility's Annual Renewable Energy Requirement.

C. Early Installation Extra Credit Multiplier. Affected Utilities acquiring Renewable Energy Credits from a Solar Electricity Resource, a Solar Water Heater, a Solar Space Cooling system, a Landfill Gas Generator, a Wind Generator, or a Biomass Electricity Generator that was installed and began operations between January 1, 2001, and December 31, 2003, shall be eligible for an Early Installation Extra Credit Multiplier. Renewable Energy Credits derived from such facilities and acquired by Affected Utilities shall be eligible for five years following the facility's operational start-up. The multiplier shall vary according to the year in which the system began operating:

2001	.3
2002	.2

2003 .1

D. In-State Power Plant Installation Extra Credit Multiplier. Affected Utilities acquiring Renewable Energy Credits from a Solar Electricity Resource that was installed in Arizona on or before December 31, 2005, shall be eligible for an In-State Power Plant Installation Extra Credit Multiplier. The Renewable Energy Credits derived from such a facility and acquired by an Affected Utility shall be multiplied by .5 annually for the life of the facility. The extra Renewable Energy Credits resulting from the multiplier shall be added to the Renewable Energy Credits produced by the Eligible Renewable Energy Resource to determine the total Renewable Energy Credits that may be used to meet an Affected Utility's Annual Renewable Energy Requirement.

E. In-State Manufacturing and Installation Content Extra Credit Multiplier. Affected Utilities acquiring Renewable Energy Credits from a Solar Electricity Resource, a Solar Water Heater, a Solar Space Cooling system, a Landfill Gas Generator, a Wind Generator, or a Biomass Electricity Generator that was installed in Arizona on or before December 31, 2005, and that contains components manufactured in Arizona shall be eligible for an In-State Manufacturing and Installation Content Extra Credit Multiplier. The Renewable Energy Credits derived from such a facility and acquired by an Affected Utility shall be multiplied annually for the life of the facility by a factor determined by multiplying .5 times the percent of Arizona content of the total installed plant.

F. Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier. Affected Utilities acquiring Renewable Energy Credits from a Distributed Solar Electric Generator that was installed in Arizona on or before December 31, 2005, shall be eligible for a Distributed Solar Electric Generator and Solar Incentive Program Extra Credit Multiplier if the facility meets at least two of the following criteria: 1) the facility is installed on customer premises; 2) the facility is included in any Affected Utility's approved Green Pricing program; 3) the facility is included in any Affected Utility's approved Net Metering or Net Billing program; 4) the facility is included in any Affected Utility's approved solar leasing program; or 5) the facility is owned by and located on an Affected Utility's property or customer property. The Renewable Energy Credits derived from such a facility and acquired by an Affected Utility shall be multiplied by .5 annually for the life of the facility. Meters will be attached to each solar electric generator and read at least once annually to verify solar performance.

G. All multipliers are additive, except that the maximum combined extra credit multiplier shall not exceed 2.0.

R14-2-1807. Manufacturing Partial Credit

A. An Affected Utility may acquire Renewable Energy Credits to apply to the non-distributed portion of its Annual Renewable Energy Requirement if it or its affiliate owns or makes a significant investment in any solar electric manufacturing plant located in Arizona or if it or its affiliate provides incentives to a manufacturer of solar electric products to locate a manufacturing facility in Arizona.

B. The Renewable Energy Credits shall be equal to the nameplate capacity of the solar electric generators produced and sold in a calendar year times 2,190 hours, which approximates a 25 percent capacity factor.

C. Extra Credit Multipliers shall not apply to Renewable Energy Credits created by R14-2-1807.

R14-2-1808. Tariff

A. Within 60 days of the effective date of these rules, each Affected Utility shall file with the Commission a Tariff that proposes methods for recovering the reasonable and prudent costs of complying with these rules.

B. The Affected Utility's Tariff filing shall provide the following information:

1. Financial information and supporting data sufficient to allow the Commission to determine the Affected Utility's fair value for purposes of evaluating the Affected Utility's proposed Tariff,
2. A discussion of the suitability of the sample tariff set forth in Appendix A for recovering the Affected Utility's reasonable and prudent costs of complying with these rules,
3. Data to support the level of costs that the Affected Utility contends will be incurred in order to comply with these rules,
4. Data to demonstrate that the Affected Utility's proposed Tariff is designed to recover only the costs in excess of the Market Cost of Conventional Generation,
5. Any other information that the Commission believes will be relevant to the Commission's consideration of the Tariff filing.

C. The Commission will approve, modify, or deny a Tariff proposed pursuant to R14-2-1808(A) within 180 days after the Tariff has been filed. The Commission may suspend this deadline or adopt an alternative procedural schedule for good cause.

D. If an Affected Utility has an adjustor mechanism for the recovery of costs related to Renewable Energy Requirements, the Affected Utility may file a request to reset its adjustor mechanism in lieu of a Tariff pursuant to R14-2-1808(A). The Affected Utility's filing shall provide all the information required by R14-2-1808(B), except that it may omit information specifically related to the fair value determination.

E. An Affected Utility may file a rate case pursuant to R14-2-103 in lieu of a Tariff pursuant to R14-2-1808(A). The Affected Utility's filing shall provide all information required by R14-2-1808(B).

R14-2-1809. Customer Self-Directed Renewable Energy Option

A. By January 1, 2007, each Affected Utility shall file with Docket Control a tariff by which an Eligible Customer may apply to an Affected Utility to receive funds to install Distributed Renewable Energy Resources. The funds annually received by an Eligible Customer pursuant to this tariff may not exceed the amount annually paid by the Eligible Customer pursuant to the Affected Utility's Tariff.

B. An Eligible Customer seeking to participate in this program shall submit to the Affected Utility a written application that describes the Renewable Energy

Resources that it proposes to install and the projected cost of the project. An Eligible Customer shall provide at least half of the funding necessary to complete the project described in its application.

C. All Renewable Energy Credits derived from the project, including generation and extra credit multipliers, shall be applied to satisfy the Affected Utility's Annual Renewable Energy Requirement.

R14-2-1810. Uniform Credit Purchase Program

A. The Director of the Utilities Division shall establish a Uniform Credit Purchase Program Working Group, which will study issues related to implementing Distributed Renewable Energy Resources. The Working Group shall address the consumer participation process, budgets, incentive levels, eligible technologies, system requirements, installation requirements, and any other issues that are relevant to encouraging the implementation of Distributed Renewable Energy Resources. No later than March 1, 2007, the Director of the Utilities Division shall file a Staff Report with recommendations for utility credit purchase programs.

B. No later than July 1, 2007, each Affected Utility shall file a Credit Purchase Program for Commission review and approval.

R14-2-1811. Net Metering and Interconnection Standards

The Commission Staff shall host a series of workshops addressing the issues of rate design including Net Metering and interconnection standards. Upon completion of this task, and the adoption of rules or standards, if appropriate, each Affected Utility shall file conforming Net Metering tariffs and interconnection standards in Docket Control.

R14-2-1812. Compliance Reports

A. Beginning April 1, 2007, and every April 1st thereafter, each Affected Utility shall file with Docket Control a report that describes its compliance with the requirements of these rules for the previous calendar year. The Affected Utility shall also transmit to the Director of the Utilities Division an electronic copy of this report that is suitable for posting on the Commission's website.

B. The compliance report shall include the following information:

1. The actual kWh of energy or equivalent obtained from Eligible Renewable Energy Resources;
2. The kWh of energy or equivalent obtained from Eligible Renewable Energy Resources normalized to reflect a full year's production;
3. The kW of generation capacity, disaggregated by technology type;
4. A breakdown of the Renewable Energy Credits used to satisfy both the Annual Renewable Energy Requirement and the Distributed Renewable Energy Requirement and appropriate documentation of the Affected Utility's receipt of those Renewable Energy Credits; and
5. A description of the Affected Utility's procedures for choosing Eligible Renewable Energy Resources and a certification from an independent auditor that those procedures are fair and unbiased and have been appropriately applied.

C. The Commission may hold a hearing to determine whether an Affected Utility's compliance report satisfies the requirements of these rules.

R14-2-1813. Implementation Plans

A. Beginning July 1, 2007, and every July 1st thereafter, each Affected Utility shall file with Docket Control a plan that describes how it intends to comply with these rules for the next calendar year. The Affected Utility shall also transmit an electronic copy of this plan that is suitable for posting on the Commission's website to the Director of the Utilities Division.

B. The implementation plan shall include the following information:

1. A description of the Eligible Renewable Energy Resources, identified by technology, proposed to be added by year for the next five years and a description of the kW and kWh to be obtained from each of those resources;
2. The estimated cost of each Eligible Renewable Energy Resource proposed to be added, including cost per kWh and total cost per year;
3. A description of the method by which each Eligible Renewable Energy Resource is to be obtained, such as self-build, customer installation, or request for proposals;
4. A proposal that evaluates whether the Affected Utility's existing rates allow for the ongoing recovery of the reasonable and prudent costs of complying with these rules, including a Tariff application that meets the requirements of R14-2-1808 if necessary; and
5. A line item budget that allocates specific funding for Distributed Renewable Energy Resources, for the Customer Self-Directed Renewable Energy Option, for power purchase agreements, for utility-owned systems, and for each Eligible Renewable Energy Resource described in the Affected Utility's implementation plan.

C. The Commission may hold a hearing to determine whether an Affected Utility's implementation plan satisfies the requirements of these rules.

R14-2-1814. Electric Power Cooperatives

A. Within 60 days of the effective date of these rules, every Electric Cooperative that is an Affected Utility shall file with Docket Control an appropriate plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year and a Tariff that proposes methods for recovering the reasonable and prudent costs of complying with its proposed plan. The Cooperative shall also transmit electronic copies of these filings that are suitable for posting on the Commission's website to the Director of the Utilities Division. Upon Commission approval of this plan, its provisions shall substitute for the requirements of R14-2-1804 and -1805 for the Electric Power Cooperative proposing the plan.

B Beginning July 1, 2007, and every July 1st thereafter, every Electric Cooperative that is an Affected Utility shall file with Docket Control an appropriate plan for acquiring Renewable Energy Credits from Eligible Renewable Energy Resources for the next calendar year. The Cooperative shall also transmit an electronic copy

of this plan that is suitable for posting on the Commission's website to the Director of the Utilities Division.

R14-2-1815. Enforcement and Penalties

A. If an Affected Utility fails to meet the annual requirements set forth in R14-2-1804 and -1805, it shall include with its annual compliance report a notice of noncompliance.

B. The notice of noncompliance shall provide the following information:

1. A computation of the difference between the Renewable Energy Credits required by R14-2-1804 and -1805 and the amount actually obtained,
2. A plan describing how the Affected Utility intends to meet the shortfall from the previous calendar year in the current calendar year, and
3. An estimate of the costs of meeting the shortfall.

C. An Affected Utility shall not recover the costs of meeting the shortfall described in R14-2-1815(B) in rates unless otherwise ordered by the Commission after affording the Affected Utility notice and an opportunity to be heard.

D. An Affected Utility may ask the Commission to waive its compliance with any provision of these rules for good cause.

E. Nothing herein is intended to limit the actions the Commission may take or the penalties the Commission may impose pursuant to Arizona Revised Statutes, Chapter 2, Article 9. An Affected Utility is entitled to notice and an opportunity to be heard prior to Commission action or imposition of penalties.

Sample Tariff

Unless otherwise ordered by the Commission, the Renewable Energy Standard Surcharge shall be assessed monthly to every retail electric service. This monthly assessment will be the lesser of $0.004988 per kWh or:

A. For residential customers, $1.05 per service,

B. For non-residential customers, $39.00 per service,

C. For non-residential customers whose metered demand is 3,000 kW or more for three consecutive months, $117.00 per service,

D. For non-metered services, the lesser of (1) the load profile or otherwise estimated kWh required to provide the service in question or (2) the service's contract kWh shall be used in the calculation of the surcharge.